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SUBJECT: UN: US PROPOSES PURCHASING POWER PARITY AS A BASIS  
FOR 2007-2009 SCALE METHODOLOGY

REF: A. A) SECSTATE 32804 B) LEIS-ATTWOOLL EMAIL OF  
MARCH 10  
1B. 2006

¶1. Summary. The Fifth Committee resumed its consideration on March 13th of the elements of the scale of assessment to be sent to the Committee on Contributions (CoC) this June. New proposals were tabled by Japan, Mexico and the US, and a revised proposal was presented by the European Union. The G-77 questioned all proposals, with particular emphasis on the U.S. proposal. The Secretariat further undercut the U.S. proposal in its comments that the data collection and compilation required for the U.S. proposal would "impose huge problems, and the UN Statistics Division may not be able to do it." End summary.

¶2. New proposals on elements of the scale methodology to be considered by the CoC were presented by Mexico, Japan and the U.S. and a revised proposal was submitted by the EU during informal consultations. Nearly all the questions and clarifications sought on all proposals were made by members of the G-77, with China and Brazil stating outright that certain proposals (Japanese and American) were unacceptable.

¶3. The Japanese proposal, presented by Ambassador Ozawa, would create a floor of 3 or 5 per cent for permanent members of the Security Council, and would also have a 3 year base period and annual recalculation. G-77 questions focused in particular on the practical application of an annual recalculation as well as the element of "responsibility to pay" espoused by the Japanese delegation. As expected, China and Russia had strong negative reactions to the latter element. In a particularly biting comment, the Chinese delegate reminded the committee that her country did not have to buy a seat on the Security Council.

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Reactions to U.S. proposal  
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¶4. As instructed (ref A and B), USdel proposed a "clean slate" approach to the methodology with only four elements: Gross National Income based on purchasing power parity (PPP); a 3 year base period using most current data; a ceiling of 22 per cent; a floor of .001 per cent. Questions and comments were raised by the following delegations: South Africa (on behalf of the G-77 and China), India, Egypt, Norway, China, Argentina, Russia, Brazil, and Trinidad and Tobago. Overall, the questions focused on the applicability of the data, the relevance of the data in determining capacity to pay, the assertion that PPP is a departure from capacity to pay, problems in data gathering for PPP and lack of data for many countries, and precedent in the GA for not accepting PPP.

¶5. South Africa led the charge with a number of technical questions on how this methodology would work in practice, with particular reference to the lack of data for many countries. The question of missing data was also raised by

Argentina. South Africa further questioned whether the U.S. was proposing to move away from the bedrock principle of capacity to pay, particularly since the proposal contained no provision for a low per capita income adjustment which has been part of the methodology since the 1940s.

¶16. The Indian delegate commented that according to his understanding of PPP, India could then make payment to the UN in goods and services, with loaves of bread, for example. He also said that PPP negates the principle of "broadly according to capacity to pay", which is in the UN Charter, and it also eliminates the provisions that have been built in over time to more accurately measure countries' capacity to pay. Comment: Capacity to pay is not a Charter obligation. End comment.

¶17. Norway twice questioned whether PPP would better reflect capacity to pay and how this could be technically applied. The Norwegian delegate also asserted that the U.S. proposal skirts the principle of capacity to pay and is technically inaccurate since it is a method to reflect standard of living.

¶18. China said that PPP inflates economies of developing countries and pointed out that the International Comparison Program (ICP) still has many problems in collecting PPP data.

PPP has only been relevant for particular studies, not for assessments. China further questions whether any UN agency has used PPP as the basis for operations and whether the CoC has ever accepted PPP.

¶19. Russia pointed out that PPP was considered ten years ago by the Working Group on Capacity to Pay, and the group found that PPP was not suitable as a basis for assessment. Brazil chimed in asserting that PPP estimates are not always robust and therefore PPP is an unacceptable approach. Lastly

Trinidad and Tobago reminded the committee that Member States need to be serious about looking at the technical basis of proposals and that proposals should be aimed at minimizing distortions in capacity to pay.

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Secretariat response

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¶10. The Secretariat was represented by Mark Gilpin, Chief of the Contributions Service and Dr. Viet Vu, Chief of the National Accounts Section of the UN Statistics Division. In response to the many questions of delegations on the U.S. proposal, Mr. Gilpin replied that PPP rates have not been used in the past in other UN organizations. The CoC had looked into PPPs, however, and did not agree that it would be suitable for use in assessments. Rather, it was an approach to be used for analytical and policy purposes and was not relevant for income comparisons.

¶11. Dr. Vu of the Statistics Division said that PPP is a concept to measure purchasing power, not to measure capacity to pay. The World Bank is currently undertaking a program to measure PPP, however this is not yet complete. PPP measures the prices of goods that are commonly consumed in society. He cited the Big Mac index as an example, but further pointed out that the majority of societies did not consume Big Macs, therefore PPP was not representative of the majority of economies. The ICP is in the process of collecting data for one year of PPPs and will have to make estimates for a number of countries. The ICP only covers 90 countries and the data for all other countries were statistical estimates. The use of PPP would take World Bank data, most of which are an estimation; also, the data are not prepared annually. In developed countries, PPP rates were very close to Market Exchange Rates. However, in developing countries, services are cheap compared to goods and therefore PPP in developing countries deviates strongly from MERS. PPP would impose huge problems in data collection and the UN Statistics Division

may not be able to collect the data requested in the U.S. proposals. The use of PPP would not make the scale more objective. Rather, it would deteriorate the transparency of the data.

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